ASSIGNMENT QUESTIONS: “Hill Country Snack Foods”

1. How much business risk does Hill Country face? How much financial risk would the company face at each of the three alternative debt-to-capital ratios presented in case Exhibit 4? How much value could Hill Country create for its shareholders at each of the three alternative debt levels?

2. What debt-to-capital structure would you recommend as optimal for Hill Country Snack Foods? What are the advantages of adding debt to the capital structure? How would issuing debt impact the company’s taxes and expected costs of financial distress? How would the financial markets react if the company increased its financial leverage?

3. How could Hill Country implement a more aggressive capital structure? What methods could be used to increase debt and decrease equity?

4. Considering Hill Country’s corporate culture, what arguments could you use to persuade CEO Keener or his successor to adopt and implement your recommendation?